

# ARMY DEPOT INC.

## Army leaders look to private sector to revitalize underused facilities

By Chet Dembeck  
SPECIAL TO THE TIMES

The Rand Corp., an influential think tank, is encouraging top Army leaders to privatize arsenals and weapons plants and convert five huge repair depots into quasi-government entities that can operate as commercial enterprises.

Army leaders have discussed these and other similar ideas for years as they tried to figure out how to cut their logistics and maintenance costs and increase efficiency at their aging and underutilized industrial facilities.

Now, it appears the Army leadership is exploring the notion of privatizing its maintenance facilities more seriously than ever.

Under pressure from Defense Secretary Donald Rumsfeld to shed operations considered secondary to the department's core mission of fighting wars, all military services are looking for ways to improve efficiency, divest themselves of noncore operations and outsource many activities.

The Army is considering a Rand recommendation to sell off some of its arsenals and convert its five depots into corporate-like entities known as federal government corporations. Under this concept, the depots would be owned by the government, but would operate like a company and make commercial-like decisions about their finances, capital investments, personnel and other matters.

"The Army must focus its energies and talents on our core competencies functions we perform better than anyone else — and seek to obtain other needed products or services from the private sector, where it makes sense," Army Secretary Thomas White said in an Oct. 4 memo to his top commanders. In that memo, White directed his commanders to identify which Army

jobs — civilian and military — could be outsourced.

Army weapons plants, arsenals, laboratories and repair depots employ more than 15,000 civilian employees and only a few military personnel. But the costs of maintaining those facilities has remained high relative to the amount of use the Army gets out of them. Utilization rates for the military services' in-house industrial capacity are lowest for the Army and are projected to decline further.

But while many Army leaders support the idea of farming out these facilities — and the personnel that go with them — to the private sector, two key challenges stand in their way.

One is Congress, which has historically opposed any moves to close down or privatize these facilities. The other is the need to attract enough interest from the private sector to take over these facilities if the decision is

made to do that.

"The value of this model for the Army laboratories and depots will depend on how much external commercial opportunity exists," said a Rand report released earlier this year titled "Seeking Non-Traditional Approaches To Collaborating and Partnering With Industry."

Army officials stress they have made no decisions on what they plan to do and are only studying their options.

One recommendation the Army is studying comes from another Rand study that has not been released and advises selling off the Army's Watervliet, N.Y., and Rock Island, Ill., arsenals to the private sector, along with some of its 14 ammunition plants, said Luis Garcia-Baco, chief of industrial base capabilities for Army Materiel Command.

About 4,300 civilians and 20 military personnel work at the facilities.

Garcia-Baco declined to say how many ammunition plants Rand recommended be sold.

Another Rand recommendation would be

## UNDERUSED

The Army is studying whether to privatize underused repair depots. Army repair depots last year operated at 77% of capacity and that trend is projected to worsen in the coming years.

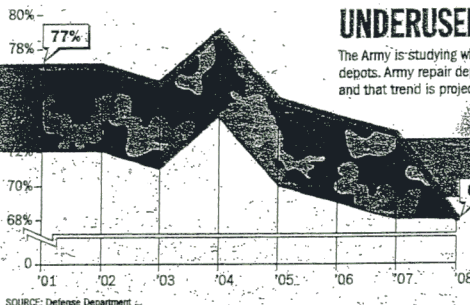


ILLUSTRATION BY MARCIA STAMER

transforming the Army's five repair depots into federal government corporations. The depots, which employ 11,000 civilian and 75 military personnel, would become an entity similar to Amtrak or Fannie Mae.

The five depots are: Anniston Army Depot, Anniston, Ala.; Corpus Christi Army Depot, Corpus Christi, Texas; Red River Army Depot, Texarkana, Texas; Letterkenny Army Depot, Chambersburg, Pa.; and Tobyhanna Army Depot, Tobyhanna, Pa.

Congress first created such organizations — half government, half corporate — more than 200 years ago as a way to give commercial-like federal enterprises more freedom to act like companies. Such corporations are exempt from traditional rules fed-

eral agencies work under concerning personnel, procurement, funding and finance activities.

Though they can act like a corporation, they remain wholly or partially owned by the government, with the potential to be privatized completely.

Such a move also could help the Army meet the 1997 Quadrennial Defense Review's mandate to eliminate 17,366 civilian positions by fiscal 2004, Rand said in its report. By transforming the depots into government corporations, the Army could cut its civilian work force without eliminating depot jobs, it said.

Army officials declined to speculate on how much money such actions might save or where

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## DoD council finds big savings in small cuts

By Chet Dembeck  
SPECIAL TO THE TIMES

A nibble here, a trim there: That is the strategy of a council of top Pentagon leaders trying to wring more money out of the budget for weapons and military operations.

So far, the Business Initiatives Council claims its nickel-and-dime approach has identified 32 cost-cutting initiatives — ranging from pooling cell phone minutes to streamlining security investigations — that could free up to \$400 million a year for more pressing priorities by 2004.

Defense Secretary Donald Rumsfeld created the council in July 2001 to explore ways to save money and install corporate-style management practices at the department. The council is chaired by the Pentagon's acquisition chief, Pete Aldridge, and includes the secretaries of the Army, Navy

and Air Force.

At an Oct. 15 Pentagon news conference, Craig College, chairman of the executive directors of the council, said the initiatives, while small individually, cumulatively add up to big bucks.

"On average we expect to get \$200 million to \$400 million a year in savings from 2004 to 2009, College said.

College said one function of the council is to find alternatives to competitive sourcing, the process agencies use to decide whether work is done by federal workers or contractors. Aldridge has promoted a list of options such as recasting functions to shave jobs, allowing direct privatization and other moves.

College said the Army created a pilot program for one alternative by partnering with Monterey, Calif., to provide police and fire

services for the Presidio of Monterey. This saves the Army about \$6 million per year, College said.

However, College said there are probably six or seven other Army properties in the United States close enough to a municipality it could partner with for these kind of services.

"You're still talking about less than \$100 million a year" in savings for those bases, College said.

College said the nature of the council's initiatives is not to look for one big-budget item to eliminate, but to peck away at everyday costs.

"It's very similar to what I read about changing management in the private sector," College said. "What you see is a series of small incremental decreases."

Army Secretary Thomas White said privatizing the Army's family housing was a successful example



Craig College, chairman of the executive directors of a Pentagon council looking for ways to cut defense costs, says up to \$400 million can be saved by making numerous small cuts.

of partnering with the private sector.

Instead of waiting for appropriated funds, "we're bringing \$700 million in 2003 of private capital to modernize the facilities," White said. □

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such savings would be shifted.

The Defense Department budgeted \$809 million for Army depots for fiscal 2003, a 34 percent increase over 2002. Yet, the average workload of all five depots in 2003 is projected to be just 76 percent of capacity. Some military and industry observers say that by leasing some of its excess capability to the private sector, the Army would make better use of its assets. By doing so, it also could attract much-needed capital to finance upgrades.

Still, such partnerships would require legislation, which Garcia-Baco admits will be a challenge for the Army to get passed because of resistance from lawmakers with depots in their districts.

Rep. Max Sandlin, D-Texas, whose district is home to the Army's Red River depot, said in a statement that he would oppose any efforts by the Army to privatize the depot and thought it was the wrong time to pursue such an effort.

"Numerous reports have shown that there is a tremendous cost associated with conducting Army privatization studies," Sandlin said.

Rep. Solomon Ortiz, D-Texas, whose district is home to Corpus Christie Army Depot, also predicted congressional resistance to the Army's effort.

Bill Johnson, legislative director for Rep. James Hansen, R-Utah, chairman of the House Armed Services Committee, said the action plans had a familiar ring.

"It looks like we're going back to the '90s, when the Army cut thousands of positions," Johnson said.

Johnson said such sweeping changes could cause the Army to become too dependent on private contractors.

"During Desert Storm, the costs for buying services from contractors went up 300 percent, while the cost of in-house logistics only rose 15 to 20 percent."

William Tuttle, a retired general who once headed Army Materiel Command, said even if the Army received permission from Congress to privatize the depots, it is questionable whether any companies would be interested in taking them over.

"Repair depots are artifacts," Tuttle said. "The plants and equipment are old."

Tuttle said massive outsourcing of functions not essential to war-fighting is the best approach for the Army.

Some of those working at the depots in question offer different alternatives.

Ray Cortez, an engine night superintendent at Corpus

Christi, said his experience working with contractors like General Electric has convinced him the answer lies in closer partnerships between the public

and private sectors, instead of privatization.

David Stevens, a member of the Federal Managers Association Chapter 256 working at

Letterkenny, said privatizing depots was contrary to the White House's management agenda.

"The administration has stat-

ed that competition is great," Stevens said. "Then you don't want to get rid of depots. We provide the only competition" to contractors: □